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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

COUNTRY Czechoslovakia

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SUBJECT Lack of Foreign Exchange and Resulting Lack of
Essential Materials

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DATE OF INFORMATION

1. Czechoslovakia, at the present time [April 1949] is greatly in need of foreign exchange to finance imports of vitally essential materials. In April 1949 the Finance Ministry estimated that Czechoslovakia had a total of four billion Czechoslovak crowns, or US\$80 million, in foreign exchange of all Western currencies on 1 Jan 49. It was then computed that this would maintain the schedule of imports laid down in the economic plan for ten months. However, by the beginning of April, the Western foreign exchange had shrunk to 1.4 billion Czechoslovak crowns, or less than US\$30 million. It was then estimated that this would be spent in two months, thus exhausting the total on hand as of 1 Jan 49 in five months instead of the estimated ten.
2. Most important material shortages in Czechoslovakia are non-ferrous metals. These are first on the list of desired imports from the US as emphasized by the fact that the Czechoslovak Government was willing to consider payment of US claims in order to open up such imports. This shortage did not become acute until mid-1948, for, in the later part of World War II, Germany had shipped large quantities of reserve supplies into Moravia when that territory was selected as part of Germany's last stand area. In addition, there were some imports from Yugoslavia, but now these imports have stopped. Czechoslovakia has one small lead mine where production costs are very high. There are, as well, one small silver mine and a small gold mine where production costs are 100 times the world price. The latter is in operation and 4,000 people are employed there.

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4. The difficulty in building up heavy industry is illustrated by the case of the Trynec steel plant, which was being built about six miles from the Zlin plant. It was to be built by Brown-Boveri out of a surplus mill from the US and two blast furnaces from the Hermann Goering Works in Germany. It was to have assembled ball bearings. Mr Jacinsky dealt with the US on this in 1947. Now the plant is being held up for want of five or six million dollars worth of US machinery. It is planned to complete the project out of domestic production, but this will not be possible.
5. There are two schools of thought as to the degree of essentiality of Swedish ore for the Czechoslovak iron industry. One school maintains the loss of this ore would be calamitous. The other holds Swedish ore to be essential only in the manufacture of certain tools, wherefore Czechoslovakia is not largely dependent on this supply. In 1945, when ore deliveries were not made for a short time, there was a shortage of Swedish ore and USSR ore was substituted. The Soviet ore was of quite good quality, but the particles were too fine for use in the Czechoslovakian furnaces, so its use was not too successful. If Swedish ore were cut off, we would just have to change our furnaces, putting more holes in them to supply more air. Some USSR ore can be mixed in and used in the furnaces as they now operate. There was a short period when the Czechoslovaks had no Swedish crowns, which was the only time when there was no supply of Swedish ore.
6. Scrap metal is short, but old tanks, cars, and guns still are to be seen all over the country. Now, however, they are too rusted for use. There was a discussion, for some time, as to who owned this military equipment, Czechoslovakia or the USSR. Now school campaigns are conducted to collect all kinds of scrap, even old glass which can be remelted for the poorer grades of glass.
7. Gold stocks are very low, and little has been coming in. [] about US\$625X1 million worth was received from Germany. As to totals, I believe the weekly published figures are reliable. Some was sold to the Netherlands and Switzerland when purchases were being made to obtain goods indirectly through those countries. [] all transactions were official and at official prices. Also, some gold was given to the Weinmann family, which emigrated in the early 1930's and loaned gold to the Czechoslovak Government. This was repaid in 1946. It was a direct transaction between individuals. and [] the only one 25X1 that was not a straight operation through and between banks.
8. Czechoslovakia's trade with Yugoslavia and the USSR aggregated 20 billion Czechoslovak crowns out of an annual total of 35 billions in 1947, while trade with other Iron Curtain states has suffered. In 1947, the USSR delivered 13 billion Czechoslovak crowns worth of goods to Czechoslovakia, more than one-third the total of Czechoslovak exports. Czechoslovakia had to deliver mostly metal goods. The hardest orders to fill were those for tubes and pipes. USSR requirements took the entire capacity for production of smaller diameters of pipe. For some reason that I do not understand, it is necessary to produce smaller and larger diameter pipe in a more or less fixed ratio. Consequently there was tremendous overproduction of large-diameter pipe, and now warehouses are full of such items with no customers. The Czechoslovak-Yugoslav trade agreement called for the exchange of seven billion Czechoslovak crowns worth of goods. Poland virtually stopped deliveries to Czechoslovakia, however, as did Sweden and the Netherlands, and Czechoslovakia owes these nations more than she can possibly pay. The price decline, which started in 1948, added to Czechoslovak difficulties. She had bought heavily at the top of the market and was faced with the necessity of making deliveries in payment of these purchases, the deliveries being at the lower prices following the decline. It was reported that Czechoslovakia sustained a net loss of three billion crowns in selling at dropping prices to pay for items bought at the peak.

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9. There are several reasons that can be given for the melting away of foreign exchange.

- (a) Shortage of non-ferrous metals has delayed deliveries of machinery for heavy industry.
- (b) Cheap cotton bought from Pakistan has proved so inferior that a large proportion of Egyptian cotton had to be added in order to make cloth at all, and this required heavy additional purchases of Egyptian cotton for hard currency.
- (c) In 1948, a half-billion Czechoslovak crowns worth of flax had been purchased from France with the expectation that the linen produced therefrom would bring in between three and four billion crowns in exchange when it was re-exported. Through some error or mischance, which the Communist Party attributes to sabotage, total exchange earned by processing this flax was 120 million crowns.
- (d) A smaller item (80 million francs worth) concerned the Tudor, a low-priced automobile, produced with four "bugs" in it, which were later corrected. Because of the rigidity of the plan, it was impossible to stop production after the bugs were discovered. But knowledge of the bugs circulated, along with information that a new, improved model was forthcoming. Consequently, the 80 million crowns worth became a drug on the market and no one in Europe would buy one of the models.

10. In addition, a great deal of the difficulty in the Czechoslovak export business stems from the nationalization of industries in the country after the February 1948 Coup. Before the Coup, there were 3,000 firms in Czechoslovakia in some way connected with the export business, I believe proportionately more than in any other country in the world. There were several hundred such firms in the glass industry alone, also in the ceramics industry. [redacted] 20 such firms 25X1

[redacted] in the chemical field in the single city of Prague. There are nine firms dealing with the single product, borax. After the February Coup, all the firms were swept into the State monopolies, and into complete confusion. Civil servants with no background in the field to which they were assigned would be in charge of a whole export industry. They didn't know what to do and often did not care whether anything was done at all. A letter of inquiry would come to a firm that no longer existed and might not even be answered. Even if it were transmitted up to the proper section of the ministry, the people who received it would not know what to do about it. Then, even when orders were shipped out, the new people would not know how to do it, and, as a result, a lot of goods were returned as unsatisfactory. All this involved really big business. For example, the glass industry, alone, had previously been exporting more than four billion crown worth of products a year. Finally, it was decided to re-establish about 20% of the old firms in order to recapture the business that was being lost. In all this, the Finance Ministry was a kind of watchdog, and the troubles and difficulties came up to it, [redacted]. The way 25X1 it worked out when nationalization was put into effect: a man would be appointed deputy for, say, the glass industry. He would call up all the old firms and say, "I am your administrator. From now on you are to deal through me. I am too busy. Goodbye." All business would come to a standstill. Goods would be unpaid for, unaccounted for, and no one would know where stocks were. [redacted] from the Argentine was in the artificial silk business and had orders to fill for 25X1 South Africa. No one was able to tell him what stocks were available or where in Czechoslovakia they were located.

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